



## **FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)  
Annual Financial Statements  
for the period ended 30 June 2020

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

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# FEZILE DABI DISTRICT MUNICIPALITY

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the period ended 30 June 2020

## GENERAL INFORMATION

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<b>Legal form of entity</b>	Municipality
<b>Domicile</b>	South Africa
<b>Nature of business and principal activities</b>	Fezile Dabi is a district municipality performing the functions as set out in the Constitution of the Republic of South Africa (Act No.108 of 1996)
<b>Accounting Officer</b>	Ms ML Molibeli
<b>Chief Financial Officer</b>	Ms N Mdaka (Appointed 1 July 2020) Mrs M Moeketsi (Acting up to 30 June 2020) Mr J Reyneke (Acting up to 31 January 2020)
<b>Executive Mayor</b>	Cllr Moshodi
<b>Speaker</b>	Cllr Kubheka
<b>Mayoral Committee</b>	Cllr V De Beer Cllr MA Mosia Cllr J Mareka Cllr P Modikoe Cllr M Magashule
<b>Chairperson of MPAC</b>	Cllr G NKethu
<b>Registered office</b>	John Vorster Road Sasolburg 1947
<b>Postal address</b>	P.O Box 10 Sasolburg 1947
<b>Bankers</b>	ABSA
<b>Auditors</b>	The Auditor General of South Africa
<b>Attorneys</b>	Peyper Attorneys Inc Ponoane Attorneys Vusi Rajuili Commercial Law Company Advocate R Schmidt
<b>Grading of local authority</b>	Grade 1 - Low Capacity Municipality
<b>Municipal demarcation code</b>	DC20

# FEZILE DABI DISTRICT MUNICIPALITY

(Registration Number Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

## ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is her responsibility to ensure that the annual financial statements satisfy the financial reporting standards with regards to form and content and present fairly the statement of financial position, results of operations and business of the municipality, and explain the transactions and financial position of the business of the municipality at the end of the financial year. The annual financial statements are based upon appropriate accounting policies consistently applied throughout the municipality and supported by reasonable and prudent judgements and estimates.

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) as well as relevant interpretations, guidelines and directives issued by the Accounting Standard Board.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss. The going-concern basis has been adopted in preparing the financial statements. Based on forecasts and available cash resources the accounting officer has no reason to believe that the municipality will not be a going concern in the foreseeable future. The financial statements support the viability of the municipality.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 76 which have been prepared on the going concern basis, were approved by the accounting officer and were signed on 30 October 2020.

The accounting officer would like to bring the following material matters to your attention:

I certify that the salaries, allowances and benefits of councillors as disclosed in note 20 to the annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of provincial and Local Government's determination in accordance with the Act.

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**Ms ML Molibeli**  
**Municipal Manager**

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF FINANCIAL POSITION**

Figures in R	Notes	30 June 2020	30 June 2019 Restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	31,796,224	201,438,161
Intangible assets	4	1,650,910	1,918,316
<b>Total non-current assets</b>		<b>33,447,134</b>	<b>203,356,477</b>
<b>Current assets</b>			
Inventories	5	-	38,197
Trade and other receivables from exchange transactions	6	706,094	464,133
Receivables from non-exchange transactions	7	7,611,121	6,099,912
VAT Receivable	8	8,035,308	8,334,567
Cash and cash equivalents	9	107,315,276	92,978,345
<b>Total current assets</b>		<b>123,667,799</b>	<b>107,915,154</b>
<b>Total assets</b>		<b>157,114,933</b>	<b>311,271,631</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Finance lease obligations	14	893,170	-
Retirement benefit obligations	15	27,031,000	25,737,000
<b>Total non-current liabilities</b>		<b>27,924,170</b>	<b>25,737,000</b>
<b>Current liabilities</b>			
Provisions	11	511,499	-
Trade and other payables from exchange transactions	12	22,089,100	12,569,499
Unspent Conditional Grants	13	6,748,185	5,247,673
Finance lease obligations	14	731,687	-
<b>Total current liabilities</b>		<b>30,080,471</b>	<b>17,817,172</b>
<b>Total liabilities</b>		<b>58,004,641</b>	<b>43,554,172</b>
<b>Net Assets</b>		<b>99,110,292</b>	<b>267,717,459</b>
<b>RESERVES</b>			
Accumulated surplus		95,543,951	263,144,812
Revaluation reserve	10	3,566,339	4,572,646
<b>Total Net Assets</b>		<b>99,110,290</b>	<b>267,717,458</b>

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF FINANCIAL PERFORMANCE**

Figures in R	Notes	30 June 2020	30 June 2019 Restated
<b>REVENUE</b>			
<b>Revenue from exchange transactions</b>			
Other Income	16	1,643,370	832,161
Interest Received	17	7,726,832	8,264,278
Actuarial Gains	15	2,633,000	178,000
<b>Total Revenue from exchange transactions</b>		<b>12,003,202</b>	<b>9,274,439</b>
<b>Revenue from non-exchange transactions</b>			
Grants and subsidies	18	161,006,488	155,563,627
Donations received	19	-	45,175,949
<b>Total Revenue from non-exchange transactions</b>		<b>161,006,488</b>	<b>200,739,576</b>
<b>Total Revenue</b>		<b>173,009,690</b>	<b>210,014,015</b>
<b>EXPENDITURE</b>			
Employee related costs	20	103,375,424	95,802,042
Remuneration of Councillors	21	7,752,868	7,630,827
Repairs and maintenance	22	1,142,006	1,930,613
General expenses	23	37,925,190	32,387,758
Transfers and grants paid	24	8,028,488	7,469,081
Depreciation and amortisation	25	4,886,039	5,486,585
Finance charges	26	1,533,287	2,562,371
Loss on disposal of assets	27	168,017	-
Contracted services	28	8,348,921	4,583,231
<b>Total Expenditure</b>		<b>173,160,240</b>	<b>157,852,508</b>
<b>(Deficit) / surplus for the year</b>		<b>(150,550)</b>	<b>52,161,507</b>

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF CHANGES IN NET ASSETS**

Figures in R	Revaluation reserve	Accumulated surplus	Total net assets
<b>Balance at 1 July 2018 as previously reported</b>	14,831,761	173,823,309	188,655,070
<b>Adjustments:</b>			
Prior year adjustments	-	391,852	391,852
<b>Balance at 1 July 2018 as restated</b>	14,831,761	174,215,161	189,046,922
<b>Changes in net assets:</b>			
Surplus for the year (as previously reported)	-	52,161,507	52,161,507
Revaluation of properties	(9,252,808)	-	(9,252,808)
<b>Adjustments:</b>			
Prior year adjustments	-	3,158,701	3,158,701
Revaluation reserve realised	(1,006,307)	1,006,307	-
Change in revaluation reserves	(10,259,115)	-	-
<b>Balance at 1 July 2019 as previously reported</b>	4,572,646	230,541,676	235,114,322
<b>Adjustments:</b>			
Prior year adjustments	-	32,603,136	32,603,136
<b>Balance at 1 July 2019 as restated</b>	4,572,646	263,144,812	267,717,458
<b>Changes in net assets:</b>			
Surplus / (deficit) for the year	-	(150,550)	(150,550)
Transfer out	-	(171,857,659)	(171,857,659)
<b>Adjustments:</b>			
Prior year adjustments	-	3,401,041	3,401,041
Revaluation reserve realised	(1,006,307)	1,006,307	-
Total Changes	(1,006,307)	(167,600,861)	(168,607,168)
<b>Balance at 30 June 2020</b>	3,566,339	95,543,951	99,110,290
<b>Note(s)</b>		<b>10</b>	

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF CASH FLOWS**

Figures in R	Notes	30 June 2020	30 June 2019 Restated
<b>Cash flow from operating activities</b>			
<b>Cash Receipts</b>			
Cash receipts from government grants		162,507,000	150,711,000
Other cash receipts		1,962,072	901,822
<b>Cash paid to suppliers and employees</b>			
Payments to suppliers for goods and services		(51,457,592)	(54,883,221)
Payments to and on behalf of employees		(107,892,467)	(102,101,772)
Other payments		(675,708)	(379,326)
<b>Net cash flows from / (used in) operations</b>		<b>4,443,305</b>	<b>(5,751,498)</b>
Finance charges paid		(173,794)	(173,467)
Interest received		7,840,571	8,104,546
VAT refunds received		3,889,503	4,672,572
VAT liability paid		-	(1,450,699)
<b>Net cash flows from operating activities</b>	29	<b>15,999,585</b>	<b>5,401,454</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment		(1,662,657)	(1,797,382)
Purchase of intangible assets		-	(27,320)
<b>Cash flows used in investing activities</b>		<b>(1,662,657)</b>	<b>(1,824,702)</b>
<b>Net increase in cash and cash equivalents</b>		<b>14,336,928</b>	<b>3,576,752</b>
Cash and cash equivalents at beginning of the year		92,978,346	89,401,594
<b>Cash and cash equivalents at end of the year</b>	9	<b>107,315,274</b>	<b>92,978,346</b>

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Investment revenue	7,000,000	1,500,000	<b>8,500,000</b>	7,726,832	<b>773,168</b>	44.1
Other own revenue	144,878,000	446,893	<b>145,324,893</b>	1,643,370	<b>143,681,523</b>	44.2
Actuarial gains	-	-	-	2,633,000	<b>(2,633,000)</b>	44.3
<b>Total revenue from exchange transactions</b>	<b>151,878,000</b>	<b>1,946,893</b>	<b>153,824,893</b>	<b>12,003,202</b>	<b>141,821,691</b>	
<b>Revenue from non-exchange transactions</b>						
Transfers and subsidies - operational	11,385,000	6,449,000	<b>17,834,000</b>	161,006,488	<b>(143,172,488)</b>	44.4
<b>Total revenue from non-exchange transactions</b>	<b>11,385,000</b>	<b>6,449,000</b>	<b>17,834,000</b>	<b>161,006,488</b>	<b>(143,172,488)</b>	
<b>Total revenue</b>	<b>163,263,000</b>	<b>8,395,893</b>	<b>171,658,893</b>	<b>173,009,690</b>	<b>(1,350,797)</b>	
<b>Expenditure</b>						
Employee related costs	(110,164,000)	(1,025,490)	<b>(111,189,490)</b>	(103,375,424)	<b>(7,814,066)</b>	44.5
Remuneration of councillors	(8,396,000)	451,000	<b>(7,945,000)</b>	(7,752,868)	<b>(192,132)</b>	44.6
Other expenses	(41,368,000)	(15,527,500)	<b>(56,895,500)</b>	(47,584,134)	<b>(9,311,366)</b>	44.7
Transfers and grants	(3,110,000)	(2,090,000)	<b>(5,200,000)</b>	(8,028,488)	<b>2,828,488</b>	44.8
Depreciation and amortisation	(2,620,000)	(2,000,000)	<b>(4,620,000)</b>	(4,886,039)	<b>266,039</b>	44.9
Finance charges	-	-	-	(1,533,287)	<b>1,533,287</b>	44.10
Materials & bulk purchases	(1,754,000)	(567,500)	<b>(2,321,500)</b>	-	<b>(2,321,500)</b>	44.11
<b>Total expenditure</b>	<b>(167,412,000)</b>	<b>(20,759,490)</b>	<b>(188,171,490)</b>	<b>(173,160,240)</b>	<b>(15,011,250)</b>	
<b>Operating surplus / (deficit)</b>	<b>(4,149,000)</b>	<b>(12,363,597)</b>	<b>(16,512,597)</b>	<b>(150,550)</b>	<b>(16,362,047)</b>	
Transfers and subsidies - capital	2,318,000	-	<b>2,318,000</b>	-	<b>2,318,000</b>	44.12
<b>Surplus / (deficit) after capital transfers and gains</b>	<b>(1,831,000)</b>	<b>(12,363,597)</b>	<b>(14,194,597)</b>	<b>(150,550)</b>	<b>(14,044,047)</b>	
Actual amounts on comparable basis as presented in the Budget and Actual Comparative Statement	(1,831,000)	(12,363,597)	(14,194,597)	(150,550)	(14,044,047)	

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

**Budget on accrual basis**

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Non-Current Assets</b>						
Property, plant and equipment	2,890,000	(377,000)	<b>2,513,000</b>	31,796,224	<b>(29,283,224)</b>	44.13
Intangible assets	110,000	(110,000)	-	1,650,910	<b>(1,650,910)</b>	44.14
	<b>3,000,000</b>	<b>(487,000)</b>	<b>2,513,000</b>	<b>33,447,134</b>	<b>(30,934,134)</b>	
<b>Current Assets</b>						
Trade and other receivables from exchange transactions	-	-		706,094	<b>(706,094)</b>	44.16
Receivables from non-exchange transactions	-	-	-	7,611,121	<b>(7,611,121)</b>	44.17
Cash and cash equivalents	-	-	-	107,315,276	<b>(107,315,276)</b>	44.18
VAT Receivable	-	-	-	8,035,308	<b>(8,035,308)</b>	44.19
	-	-	-	<b>123,667,799</b>	<b>(123,667,799)</b>	
<b>Total Assets</b>	<b>3,000,000</b>	<b>(487,000)</b>	<b>2,513,000</b>	<b>157,114,933</b>	<b>(154,601,933)</b>	
<b>Liabilities</b>						
<b>Non-Current Liabilities</b>						
Finance lease obligation	-	-	-	893,170	<b>(893,170)</b>	44.20
Retirement benefit obligations	-	-	-	27,031,000	<b>(27,031,000)</b>	44.21
	-	-	-	<b>27,924,170</b>	<b>(27,924,170)</b>	
<b>Current Liabilities</b>						
Trade and other payables from exchange transactions	-	-	-	22,089,100	<b>(22,089,100)</b>	44.22
Unspent conditional grants & receipts	-	-	-	6,748,185	<b>(6,748,185)</b>	44.23
Finance lease obligation	-	-	-	731,687	<b>(731,687)</b>	44.24
	-	-	-	<b>29,568,972</b>	<b>(29,568,972)</b>	
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,493,142</b>	<b>(57,493,142)</b>	
<b>Net Assets</b>	<b>3,000,000</b>	<b>(487,000)</b>	<b>2,513,000</b>	<b>99,621,791</b>	<b>(97,108,791)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus / (deficit)	3,000,000	(338,000)	<b>2,662,000</b>	95,543,951	<b>(92,881,951)</b>	44.25
Revaluation reserve	-	-	-	3,566,339	<b>(3,566,339)</b>	44.26
	<b>3,000,000</b>	<b>(338,000)</b>	<b>2,662,000</b>	<b>99,110,290</b>	<b>(96,448,290)</b>	

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

**Budget on accrual basis**

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note
<b>Statement of Cash Flow</b>						
<b>Cash flows from operating activities</b>						
<b>Cash receipts:</b>						
Cash receipts from government grants	11,385,000	6,449,000	<b>17,834,000</b>	162,507,000	<b>(144,673,000)</b>	44.27
Other cash receipts	144,878,000	446,893	<b>145,324,893</b>	1,962,072	<b>143,362,821</b>	44.28
Interest received	7,000,000	1,500,000	<b>8,500,000</b>	7,840,571	<b>659,429</b>	44.29
	<b>163,263,000</b>	<b>8,395,893</b>	<b>171,658,893</b>	<b>172,309,643</b>	<b>(650,750)</b>	
<b>Cash payments:</b>						
Payments to suppliers and employees	(161,682,000)	(16,669,490)	<b>(178,351,490)</b>	(159,350,059)	<b>(19,001,431)</b>	44.30
Finance charges paid	-	-	-	(173,794)	<b>173,794</b>	44.31
Other payments	(1,400,000)	(50,000)	<b>(1,450,000)</b>	(675,708)	<b>(774,292)</b>	44.32
	<b>(163,082,000)</b>	<b>(16,719,490)</b>	<b>(179,801,490)</b>	<b>(160,199,561)</b>	<b>(19,601,929)</b>	
<b>Net cash flows from operating activities</b>	<b>181,000</b>	<b>(8,323,597)</b>	<b>(8,142,597)</b>	<b>12,110,082</b>	<b>(20,252,679)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(3,000,000)	-	<b>(3,000,000)</b>	(1,662,657)	<b>(1,337,343)</b>	44.33
Purchase of intangible assets	-	-	-	-	-	44.34
	<b>(3,000,000)</b>	-	<b>(3,000,000)</b>	<b>(1,662,657)</b>	<b>(1,337,343)</b>	
<b>Net Cash flows from investing activities</b>	<b>(2,819,000)</b>	-	<b>(2,819,000)</b>	10,447,425	<b>(13,266,425)</b>	44.35
Net increase/(decrease) in cash and cash equivalents	52,000,000	-	<b>52,000,000</b>	92,978,346	<b>(40,978,346)</b>	44.36
<b>Cash and cash equivalents at the beginning of the year</b>	<b>49,181,000</b>	-	<b>49,181,000</b>	<b>103,425,771</b>	<b>(54,244,771)</b>	
<b>Cash and cash equivalents at the end of the year</b>						

# FEZILE DABI DISTRICT MUNICIPALITY

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

## ACCOUNTING POLICIES

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Receivables**

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

For loans and receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loans or receivables' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

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### ACCOUNTING POLICIES

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#### *Presentation of Annual Financial Statements continued...*

##### **Impairment testing**

The recoverable amounts of potentially impaired cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discounted project cash flows for example discount rate, condition of the asset, estimate future cash inflow, outflow, the term for discounting, assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

##### **Value in use of cash-generating assets**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest rates.

##### **Value in use of non-cash-generating assets**

The municipality reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

##### **Useful lives of property, plant and equipment and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

##### **Post-retirement benefits**

The present value of the post-retirement and long-term obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement and long-term obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-retirement and long-term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 15.

##### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

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### *Presentation of Annual Financial Statements continued...*

#### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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#### ***Presentation of Annual Financial Statements continued...***

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value. The depreciated charge for each period is recognised in surplus and deficit.

Item	Depreciation method	Average useful life
Buildings	Straight line	30 years
Computer equipment	Straight line	2-30 years
Furniture and office equipment	Straight line	2-30 years
Infrastructure assets	Straight line	5-30 years
Land	Straight line	Indefinite
Leased assets	Straight line	2-7 years
Machinery and equipment	Straight line	1-30 years
Motor vehicles	Straight line	2-30 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Assets of property, plant and equipment are recognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (See note 22).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

#### **1.5 Intangible assets**

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

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#### ***Presentation of Annual Financial Statements continued...***

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided on a straight line basis over the expected useful lives of the intangible assets.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Should the estimate change the municipality revises the expected useful life accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard GRAP on Accounting Policies, Changes in Estimates and Errors.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis to their residual values, if any. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Software applications	Straight line	5 - 12 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

#### **1.6 Impairment of cash-generating assets**

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

A cash generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount of an asset or a cash generating unit is the higher of its fair value less cost to sell and its value in use.

#### **Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

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#### *Presentation of Annual Financial Statements continued...*

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of non-cash-generating assets.

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

#### **Value in use**

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### **Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current actual risk-free rate of interest based on the relevant Government bond rate and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Cash-generating units**

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#### *Presentation of Annual Financial Statements continued...*

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

#### **Reversal of impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

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#### ***Presentation of Annual Financial Statements continued...***

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

#### **1.7 Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

Management uses its discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of generating a commercial return and generating cash flows managed for cash-generating purposes the assets are treated as cash-generating assets.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

#### **Designation**

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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#### *Presentation of Annual Financial Statements continued...*

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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#### *Presentation of Annual Financial Statements continued...*

##### **Reversal of an impairment loss**

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

##### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

#### **1.8 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

A financial asset is past due when a counter party has failed to make a payment when contractually due.

##### **Classification**

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Cash and cash equivalents	Financial asset measured at amortised cost
Trade & other receivables from exchange transactions	Financial asset measured at amortised cost
Trade & other receivables from non-exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

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### ***Presentation of Annual Financial Statements continued...***

#### **Class**

Trade & other payables from exchange transactions  
Unspent conditional grants and receipts  
Trade & other payables from non-exchange transactions  
Employees benefit obligation  
Finance lease obligation

#### **Category**

Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### **Initial recognition**

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

#### **Initial measurement of financial assets and financial liabilities**

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

#### **Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

## FEZILE DABI DISTRICT MUNICIPALITY

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### ACCOUNTING POLICIES

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#### *Presentation of Annual Financial Statements continued...*

##### **Impairment and uncollectibility of financial assets**

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

##### **Derecognition**

###### **Financial assets**

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

###### **Financial liabilities**

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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#### ***Presentation of Annual Financial Statements continued...***

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### **1.9 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Any contingent rents are expensed in the period in which they are incurred.

### **1.10 Inventories**

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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### ***Presentation of Annual Financial Statements continued...***

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO). The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.11 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### **1.12 Value-added Tax (VAT)**

The municipality is registered with the South African Revenue Service (SARS) for VAT on payment basis, in accordance with Section 15(2) of the Value-added Tax Act 89 of 1991.

### **1.13 Employee benefits**

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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#### *Presentation of Annual Financial Statements continued...*

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### **Multi-employer plans and/or State plans and/or Composite social security programmes**

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money.

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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### ***Presentation of Annual Financial Statements continued...***

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost; and

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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#### ***Presentation of Annual Financial Statements continued...***

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### **Other long-term employee benefits**

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligation.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;

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### ACCOUNTING POLICIES

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#### *Presentation of Annual Financial Statements continued...*

##### **1.14 Provisions and contingencies**

A provision is a liability of uncertain timing or amount.

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

##### **1.15 Accumulated surplus/(deficit)**

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

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## ACCOUNTING POLICIES

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### *Presentation of Annual Financial Statements continued...*

#### **1.16 Revaluation reserve**

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve.

The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus.

On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

#### **1.17 Revenue from exchange transactions**

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

##### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

##### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

##### **Interest**

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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#### *Presentation of Annual Financial Statements continued...*

Interest or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

#### **1.18 Revenue from non-exchange transactions**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

##### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Revenue received from conditional grants, donations and other funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement, where applicable. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

##### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

##### **Transfers**

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

##### **Debt forgiveness and assumption of liabilities**

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

##### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

##### **Services in-kind**

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#### ***Presentation of Annual Financial Statements continued...***

The municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

#### **1.19 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

#### **1.20 Borrowing costs**

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

#### **1.21 Unauthorised expenditure**

Unauthorised expenditure means:

- overs pending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.22 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.23 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the municipality's supply chain management policy.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### **1.24 Commitments**

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

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## ACCOUNTING POLICIES

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### ***Presentation of Annual Financial Statements continued...***

Disclosures are made in respect of unrecognised contractual commitments which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to operating leases

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### **1.25 Budget information**

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

### **1.26 Related parties**

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that municipality's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances. Refer to note 38 - Related parties.

### **1.27 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# FEZILE DABI DISTRICT MUNICIPALITY

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

## ACCOUNTING POLICIES

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### *Presentation of Annual Financial Statements continued...*

#### 1.28 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 33 - Comparative figures.

## 2. New standards and interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

## FEZILE DABI DISTRICT MUNICIPALITY

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES

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#### ***New standards and interpretations continued...***

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, *inter alia*, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 106 (as amended 2016): Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

## FEZILE DABI DISTRICT MUNICIPALITY

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES

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#### ***New standards and interpretations continued...***

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The subsequent amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the standard is for years beginning on or after 01 April 2019.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal- agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land**

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

## FEZILE DABI DISTRICT MUNICIPALITY

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### ACCOUNTING POLICIES

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#### ***New standards and interpretations continued...***

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### **IGRAP 19: Interpretation of the Standard of GRAP on Liabilities to pay levies**

The timing and recognition of liabilities to pay levies is not clear in GRAP 19. This Interpretation of the Standards of GRAP provides guidance on when recognise a liability to pay a levy in the financial statements of an entity that is paying levy, i.e when the activity that triggers the payment of a liability occurs.

A levy is a non-exchange transaction that is imposed by government on entities according to legislation or similar means. The municipality needs to review payments made to other levels of government to assess whether they are in the scope of IGRAP 19, and if they are recognised correctly in the financial statements. Consideration should be on the substance of the outflow rather than the use of the term "levy".

The effective date of the interpretation is for years beginning on or after 01 April 2019.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

### **2.2 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

#### **GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### **GRAP 35: Consolidated financial statements**

The objective of the Standard is to establish principles for presentation and preparation of consolidated financial statements when an entity controls one or more entities.

## **FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

### **ACCOUNTING POLICIES**

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#### ***New standards and interpretations continued...***

The Standard further: -

- requires an entity that controlling entity that controls one or more other entities present consolidate financial statements;
- defines the principles of control and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements and;
- defines an investment in an entity and sets out an exception to consolidating particular controlled entities of an investment entity.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### **GRAP 36: Investments in associates and joint ventures**

The objective of the Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for application of the equity method when accounting for investments in associates and joint ventures.

This Standard applies only to quantifiable ownership interest. This includes ownership interests arising from investments in the formal equity structure of another entity. A formal equity structure means share capital or an equivalent form of capital.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### **GRAP 37: Joint arrangements**

The objective of the Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

The Standard also defines joint control and requires an entity that is party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements and associates, and structured entities that are not consolidated; and

#### **GRAP 38: Disclosure of interests in other entities**

The objective of the Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements
- the effects of those interests on its financial position, financial performance and cash flow.

The effective date of the interpretation is not yet set by the Minister of Finance.

## FEZILE DABI DISTRICT MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES

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#### ***New standards and interpretations continued...***

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the standard.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

# FEZILE DABI DISTRICT MUNICIPALITY

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 3. Property, plant and equipment

	30 June 2020			30 June 2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,900,000	-	2,900,000	2,900,000	-	2,900,000
Buildings	19,617,500	(2,784,933)	16,832,567	19,617,500	(1,733,447)	17,884,053
Machinery and equipment	3,406,345	(2,900,077)	506,268	1,639,415	(2,686,280)	(1,046,865)
Furniture and office equipment	7,717,138	(6,158,292)	1,558,846	7,273,763	(6,056,242)	1,217,521
Motor vehicles	15,664,887	(9,319,000)	6,345,887	14,496,928	(8,275,901)	6,221,027
Computer equipment	5,598,865	(4,734,636)	864,229	5,511,006	(4,390,044)	1,120,962
Leased assets	2,378,596	(825,356)	1,553,240	3,992,915	(3,992,915)	-
Work of Art and Paintings	39,969	-	39,969	44,825	-	44,825
Work-in-progress	-	-	-	171,857,662	-	171,857,662
Community Assets	1,355,075	(159,857)	1,195,218	1,265,787	(26,811)	1,238,976
<b>Total</b>	<b>58,678,375</b>	<b>(26,882,151)</b>	<b>31,796,224</b>	<b>228,599,801</b>	<b>(27,161,640)</b>	<b>201,438,161</b>

### Reconciliation of property, plant and equipment- 30 June 2020

	Opening balance	Additions	Revaluations	Depreciation	Disposals / Write-offs	Impairment	Transfers in/(out)	Prior Year Corrections	Total
Land	2,900,000	-	-	-	-	-	-	-	2,900,000
Buildings	18,328,876	-	-	(1,496,297)	-	-	-	(12)	16,832,567
Machinery and equipment	744,293	-	-	(259,774)	(81)	-	-	21,830	506,268
Furniture and office equipment	1,434,280	599,497	-	(445,200)	(139,197)	-	-	109,466	1,558,846
Motor vehicles	6,221,027	1,167,960	-	(1,043,099)	-	-	-	-	6,345,888
Computer equipment	1,119,938	166,524	-	(431,721)	(28,739)	-	-	38,227	864,229
Leased assets	-	2,329,860	-	(776,620)	-	-	-	-	1,553,240
Work of Art and Paintings	39,969	-	-	-	-	-	-	-	39,969
Work- in-	171,857,662	-	-	-	-	(171,857,662)	-	-	-
Community Assets	1,238,975	89,288	-	(138,888)	-	-	-	5,843	1,195,218
<b>Total</b>	<b>203,885,020</b>	<b>4,353,130</b>	<b>-</b>	<b>(4,591,599)</b>	<b>(168,017)</b>	<b>-</b>	<b>(171,857,662)</b>	<b>175,354</b>	<b>31,796,225</b>

# FEZILE DABI DISTRICT MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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*Property, plant and equipment continued...*

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	Additions	Revaluations	Acc Depr Realised	Disposals / Write-offs	Depreciation	Transfers in/(out)	Other movements	Total
Land	2,900,000	-	-	-	-	-	-	-	2,900,000
Buildings	19,615,082	-	-	-	-	(1,286,207)	-	-	18,328,876
Machinery and equipment	713,688	196,430	-	291,556	(83,772)	(3,378)	(623)	(369,607)	744,293
Furniture and office equipment	1,119,819	234,511	-	169,680	(224,764)	(596,306)	(31,923)	763,263	1,434,280
Motor vehicles	6,147,550	980,654	-	-	-	(978,955)	-	71,778	6,221,027
Computer equipment	1,004,780	406,172	-	-	(636,835)	(641,167)	(5,652)	992,640	1,119,938
Leased assets	1,330,972	-	-	-	-	(1,330,972)	-	-	-
Work of Art and Paintings	39,969	-	-	-	-	-	-	-	39,969
Work- in-	126,681,713	45,175,949	-	-	-	-	-	-	171,857,662
Community Assets	1,078,754	-	(252,978)	857,204	-	-	-	(444,006)	1,238,975
<b>Total</b>	<b>160,632,329</b>	<b>46,993,716</b>	<b>(252,978)</b>	<b>1,318,440</b>	<b>(945,371)</b>	<b>(4,836,985)</b>	<b>(38,198)</b>	<b>1,014,067</b>	<b>203,885,020</b>

# FEZILE DABI DISTRICT MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2020

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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30 June 2020

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Restated

### ***Property, plant and equipment continued...***

#### **Pledged as security**

None of the above assets have been pledged as security other than the obligations under finance leases that are secured by the lessor's right over the leased assets.

#### **Revaluations**

#### **Land and buildings**

Land and buildings are re-valued independently every 5 years. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The following properties were revalued:

The municipality's land and buildings were revalued using the Depreciated Replacement Cost (DRC) method of valuation. DRC is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

Revaluation of land and building was performed by an independent valuer, Kgolofelo Property Services CC. The effective date of the revaluation was 30 July 2018

Portion 2 of Erf 8 Sasolburg and  
Portion 1 of Erf 49 Sasolburg  
Weltevreden settlement agricultural holding 78, off R82.

#### **Details of properties**

##### **Portion 1 of Erf 49 Sasolburg**

Terms and conditions

Building Improvements Value	-	9,350,000
Land Value	-	1,350,000
	<hr/>	<hr/>
		<b>10,700,000</b>

##### **Portion 2 of Erf 8 Sasolburg**

Terms and conditions

Building Improvements Value	-	10,250,000
Land Value	-	1,450,000
	<hr/>	<hr/>
		<b>11,700,000</b>

##### **Weltevreden settlement agricultural holding 78**

Movable Assets

Movable Assets	-	1,200,237
	<hr/>	<hr/>
		<b>1,300,237</b>

#### **Property, plant and equipment in the process of being constructed or developed (Work-in-Progress)**

##### **Cumulative expenditure recognised in the carrying value of property, plant and equipment**

Opening balance	126,681,713	105,422,223
Additions:	45,175,949	21,259,490
Transfer out (FS Department of Sports, Recreation, Arts & Culture)	(171,857,662)	-
Closing balance	-	<b>126,681,713</b>

# FEZILE DABI DISTRICT MUNICIPALITY

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Annual Financial Statements for the year ended 30 June 2020

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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30 June 2020

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Restated

### ***Property, plant and equipment continued...***

Fezile Dabi District Municipality entered into a Memorandum of Agreement with Free State Department of Sports, Recreation, Arts & Culture (Department) in November 2010 for the purpose of construction of the Stadium in Tumahole at the sole discretion and benefit of the Department. In terms of the agreement, Fezile Dabi was to act as an implementation agent on behalf of the Department. As at 30 June 2020 the construction of the stadium was completed and the council of Fezile Dabi duly took a decision in terms of resolution number 127 of 29 May 2020 to accordingly terminate its agency mandate and transfer the costs of the assets that were capitalised in the books of Fezile Dabi during the construction process back to the Department as the municipality no longer had control over the asset. The total cost of the stadium amounted to R 171 857 661.

### **Expenditure incurred to repair and maintain property, plant and equipment**

Buildings	214,758	441,731
Furniture & office equipment	385,037	206,784
Motor vehicles	542,211	1,282,098
	<b>1,142,006</b>	<b>1,930,613</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### **4. Intangible assets**

	2020		
	Cost / Valuation	Accumulated amortisation and impairment	Carrying value
Software applications	3,408,598	(1,757,688)	1,650,910
	<b>3,408,598</b>	<b>(1,757,688)</b>	<b>1,650,910</b>

#### **Reconciliation of Intangible assets for the period ended 30 June 2020**

	Opening Balance	Additions	Amortisation	Closing Balance
Software applications	1,913,739	-	(294,440)	1,619,299
	<b>1,913,739</b>	<b>-</b>	<b>(294,440)</b>	<b>1,619,299</b>

	2019		
	Cost / Valuation	Accumulated amortisation and impairment	Carrying value
Software applications	3,408,598	(1,490,282)	1,918,316
	<b>3,408,598</b>	<b>(1,490,282)</b>	<b>1,918,316</b>

#### **Reconciliation of Intangible assets for the period ended 30 June 2019**

	Opening Balance	Additions	Amortisation	Closing Balance
Software applications	2,136,999	68,300	(291,560)	1,913,739
	<b>2,136,999</b>	<b>68,300</b>	<b>(291,560)</b>	<b>1,913,739</b>

**FEZILE DABI DISTRICT MUNICIPALITY**

(Municipal Demarcation Number: DC20)

Annual Financial Statements for the year ended 30 June 2020

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in R	30 June 2020	30 June 2019 Restated
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**5. Inventories**

Inventory items	-	38,197
	-	<b>38,197</b>

Assets items with a carrying amount of R100 below at 30 June 2019 have been transferred to inventory. The conditions of the assets were assessed and lifespan extended during 2019/20 financial year and were subsequently transferred to the main fixed asset register

**6. Trade and other receivables from exchange transactions**

Accrued interest	303,940	413,288
Recoverable - private phone calls	92,596	50,845
Prepaid expense	309,558	-
	<b>706,094</b>	<b>464,133</b>

Up to 30 June 2020, trade receivables were recognised at transaction price less provision for impairment. A provision for impairment of trade and other receivables was established when there was an objective evidence that the municipality would not be able to collect all the amounts due according to the original terms of receivables and applicable council policies.

**Trade and other receivables from exchange transactions pledged as security**

None of the trade and other receivables from exchange transactions are pledged as security

**Credit quality of trade and other receivables from exchange transactions**

The credit quality of trade and other receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

**Trade and other receivables from exchange transactions past due but not impaired**

The municipality considers trade and other receivables from exchange transactions in default when contractual payments are 90 days past due. However, in certain cases, the municipality may also consider a trade and other receivable from exchange transaction to be in default when internal or external information indicates that the municipality is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held.

At 30 June 2020, trade and other receivables of R 91,430 (2019: 47,956) were past due but not impaired

The ageing of amounts past due but not impaired are as follows:

90 days past due	91,430	47,956
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**Trade and other receivables from exchange transactions impaired**

At 30 June 2020, none of trade and other receivable were impaired (2019: R -)

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### 7. Receivables from non-exchange transactions

Bursary debtors	-	-
Fuel deposits	1,000	1,000
Other sundry receivables	354,624	305,196
Recoverable - UIFWE	7,255,497	5,793,716
	<b>7,611,121</b>	<b>6,099,912</b>

#### Receivable from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions are pledged as security.

#### Credit quality of receivables from non-exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

#### Receivables from non-exchange transactions past due but not impaired

The municipality considers receivables from non-exchange transactions in default when contractual payments are 90 days past due. However, in certain cases, the municipality may also consider receivable from non-exchange transaction to be in default when internal or external information indicates that the municipality is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A receivable from non-exchange transaction is written off when there is no reasonable expectation of recovering the contractual cash flows.

At 30 June 2020, trade and other receivables of R 6,149,218 (2019: R 137,621) were past due but not impaired

The ageing of amounts past due but not impaired are as follows:

90 days past due	<b>6,149,218</b>	<b>137,621</b>
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#### Trade and other receivables from exchange transactions impaired

At 30 June 2020, none of trade and other receivable were impaired (2019: R -)

### 8. VAT Receivable

Net input VAT receivable	<b>8,035,308</b>	<b>8,334,567</b>
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The municipality is registered for VAT on a payment basis with South African Revenue Services and is required to file VAT returns on a monthly basis.

### 9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Current account	27,977,885	18,947,355
Call accounts	<b>79,337,391</b>	<b>74,030,990</b>

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****Figures in R*****Cash and cash equivalents continued...*****The municipality had the following bank accounts**

<b>Account description</b>	<b>Bank statement balances</b>			<b>Cash book balances</b>		
	<b>30-Jun-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>
Absa Current - 520000100	988,952	2,407,355	4,332,611	934,123	2,152,843	4,075,446
Absa HIV - 9209269959	957,821	488,884	461,170	958,172	488,884	461,170
Absa Savings - 9070399717	26,085,590	16,305,629	15,830,734	26,085,590	16,305,628	15,830,734
Absa - 2067390363	13,414,732	12,522,938	11,653,550	13,414,733	12,522,938	11,653,550
Absa - 2068681892	9,447,610	8,832,133	8,169,706	9,447,609	8,832,132	8,169,702
Nedbank - 7288009165	12,645,185	11,982,853	11,268,118	12,643,732	11,981,400	11,268,117
Standard bank - 728670534/006	12,629,963	11,728,385	11,022,046	12,630,324	11,728,745	11,022,047
Standard bank - 728670535/008	16,964,060	15,743,149	14,618,684	16,964,060	15,743,148	14,618,683
Standard bank - 728670534/010	14,236,934	13,222,627	12,302,145	14,236,933	13,222,627	12,302,145
	<b>107,370,846</b>	<b>93,233,953</b>	<b>89,658,764</b>	<b>107,315,276</b>	<b>92,978,345</b>	<b>89,401,594</b>

**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits are neither past due nor impaired and can be assessed by reference to external credit ratings.

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### ***Cash and cash equivalents continued...***

#### **Credit rating**

BB+ long term rating

**107,315,276**

**92,978,345**

#### **Cash and cash equivalent pledged as collateral**

None of the municipality's cash and cash equivalents is pledged as collateral.

#### **Non-cash assets pledged as security**

None of the municipality's cash and cash equivalents is pledged as security.

#### **Cash and cash equivalents where availability is restricted**

None of the municipality's available cash and cash equivalent is restricted for use.

## 10. Reserves

### **Revaluation reserve**

Opening balance	4,572,646	14,831,761
Total changes during the year	(1,006,307)	(10,259,115)
Closing balance	<b>3,566,339</b>	<b>4,572,646</b>

## 11. Provisions

### **Provision for performance bonuses**

Opening balance	-	993,998
Additions	511,499	-
Reversals	-	(993,998)
Closing balance	<b>511,499</b>	<b>-</b>

It is the municipality's policy to pay senior managers performance bonus after the assessment of achievement of predetermined performance targets after the end of each financial year. Payment of performance bonuses depends on the availability of funds and is subject to the prerogative of the council to approve. The payment band ranges between 10% and 14% of the all-inclusive remuneration packages of the respective senior managers.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

## 12. Trade and other payables from exchange transactions

Leave accruals	8,333,073	7,743,841
Service bonus accruals	2,801,028	2,836,251
Other trade payables and accruals	10,954,999	1,989,407
	<b>22,089,100</b>	<b>12,569,499</b>

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### 13. Unspent Conditional Grants

Unspent conditional grants consist of capital and operating conditional grants received from the National government for implementation of various projects that were assigned to the municipality. The effect of grants receipts and expenditure is detailed below:

#### Capital grants

Municipal Infrastructure Grant (MIG)	5,178,477	5,178,477
Integrated National Electrification Programme Grant (INEPG)	69,196	69,196
	<u>5,247,673</u>	<u>5,247,673</u>

#### Operating grants

Rural Roads Asset Management System (RRAMS)	33,283	-
Energy Efficient Management Grant	1,467,229	-
	<u>1,500,512</u>	<u>-</u>
Total	<u>6,748,185</u>	<u>5,247,673</u>

#### Reconciliation of unspent conditional grants

30 June 2020

#### Capital grants

	Municipal Infrastructure Grant	Integrated National Electrification Programme Grant	FS Provincial Government Grants	Total
Opening balance at the beginning of the year	5,178,477	69,196	-	5,247,673
<i>Movements during the year:</i>				
Add: Receipts/Additions during the year	-	-	-	-
Less: Income recognition during the year	-	-	-	-
Less: Surrendered/Written-off during the year	-	-	-	-
Closing balance at the end of the year	<b>5,178,477</b>	<b>69,196</b>	-	<b>5,247,673</b>

#### Operating grants

	Energy Efficiency & Demand Side Management Grant	Rural Roads Assets Management Systems Grant	Financial Management Grant	Total
Opening balance at the beginning of the year	-	-	-	-
<i>Movements during the year:</i>				
Add: Receipts/Additions during the year	6,000,000	2,318,000	1,000,000	9,318,000
Less: Income recognition during the year	(8,028,488)	-	(1,000,000)	(9,028,488)
Less: Surrendered/Written-off during the year	-	-	-	-
Closing balance at the end of the year	<b>(2,028,488)</b>	<b>2,318,000</b>	-	<b>289,512</b>

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### *Unspent Conditional Grants continued...*

**30 June 2019**

#### **Capital grants**

	Municipal Infrastructure Grant	Integrated National Electrification Programme Grant	FS Provincial Government Grants	Total
Opening balance at the beginning of the year	7,060,757	3,736,390	4,991,073	15,788,220
<i>Movements during the year:</i>				
Add: Receipts/Additions during the year	-	-	-	-
Less: Income recognition during the year	(1,399,778)	(3,667,194)	-	(5,066,972)
Less: Paid directly to Mafube LM (financial aid)	(482,502)			
Less: Surrendered/Written-off during the year	-	-	(4,991,073)	(4,991,073)
Closing balance at the end of the year	<b>5,178,477</b>	<b>69,196</b>	-	<b>5,247,673</b>

#### **Operating grants**

	Rural Roads Assets Management Systems Grant	Financial Management Grant	Total
Opening balance at the beginning of the year	-	-	-
<i>Movements during the year:</i>			
Add: Receipts/Additions during the year	2,188,000	1,000,000	3,188,000
Less: Income recognition during the year	(2,188,000)	(830,320)	(3,018,320)
Less: Surrendered/Written-off during the year	-	-	-
Less: Funds committed/Accruals at year end	-	(169,680)	(169,680)
Closing balance at the end of the year	-	-	-

#### **Municipal Infrastructure Grant (MIG):**

During 2017/18 financial year Mafube Local Municipality MIG funds were regazetted under Fezile Dabi District Municipality in terms of the Directive of the Minister of Finance dated 16 October 2017. The purpose of the funds was for Fezile Dabi District Municipality to continue with the implementation of various capital projects in Mafube Local Municipality that were already under implementation prior to regazetting of funds. As at 30 June 2020 R 5 178 477 (2019: 5 178 477) was unspent.

#### **Integrated National Electrification Programme Grant (INEPG):**

The INEP fund was sourced by Fezile Dabi District Municipality from the National Department of Energy in order to assist Mafube Local Municipality with electrification of households in that area. As at 30 June 2020 R 69 196 (2019: R 69 196) was unspent.

#### **Rural Roads Asset Management System Grant (RRAMSG):**

The purpose of RRAMS Grant is to conduct assessment and feasibility of roads in the region and then data is forwarded to the province in a form of report.

#### **Financial Management Grant (FMG):**

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA

#### **Energy Efficiency & Demand Side Management Grant (EEDSMG):**

The purpose of EEDSMG is to support municipalities in their efforts to reduce electricity consumption by optimising their use of energy.

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**14. Finance lease obligations**

**Finance lease obligations comprise:**

Office printing equipment	893,170	572,083
	<b>893,170</b>	<b>572,083</b>
Impairment	-	-
	<b>893,170</b>	<b>572,083</b>
Non-current liabilities	893,170	-
Current liabilities	731,687	-
	<b>1,624,857</b>	<b>-</b>

**Finance lease obligations - lease payment reconciliations**

**Minimum lease payments due**

Not later than one year	884,520	572,083
Later than one year no later than five years	884,520	(572,083)
Later than five years	-	-
	<b>1,769,040</b>	<b>-</b>
Future finance charges	(149,906)	-
Present value of finance lease liabilities	<b>1,619,134</b>	<b>-</b>
<b>Present value of minimum lease payments</b>	<b>1,619,134</b>	<b>-</b>

**The present value of minimum lease payments due:**

Not later than one year	844,434	-
Later than one year and not later than five years	774,701	-
Later than five years	-	-
	<b>1,619,134</b>	<b>-</b>

It is municipal policy to lease office printing equipment and communication gadgets under finance leases. The average lease term is 3 and 2 years respectively and the municipality's average effective borrowing rate was 8.65% (2019: 8.6.5%). Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. The lease is not subject to automatic renewal or purchase options and is not subject to escalation for the duration of the lease term.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****Figures in R****30 June 2020****30 June 2019****Restated****15. Employee benefit obligation****Defined benefit plan**

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in retirement, the surviving dependents may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependents. Some options also differentiate on the basis of income.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the serving dependents will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ZAQ Consultants and Actuaries as at 30 June 2020.

**Post retirement medical aid plan**

**The post retirement medical plan is a defined benefit plan, of which the members are made up as follows:**

In- Service members (employees)	130	132
Continuation members (Pensioners)	7	7
	<b>137</b>	<b>139</b>

The municipality make monthly contributions for health care arrangements to the following medical aid schemes.

- Bonitas medical scheme
- Hosmed medical scheme
- KeyHealth medical scheme
- LA Health medical scheme
- Samwumed medical scheme
- Fedhealth medical scheme

**Amounts recognised in the statement of financial position are as follows:**

Opening balance	(12,948,000)	(10,790,000)
Service cost	(724,000)	(723,000)
Interest cost	(1,346,000)	(1,092,000)
Actuarial gains/(losses)	890,000	(589,000)
Benefits payment	246,000	246,000
	<b>(13,882,000)</b>	<b>(12,948,000)</b>

**Amounts recognised in the statement of financial performance**

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## **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

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<b><i>Employee benefit obligation continued...</i></b>		
Current service cost	724,000	723,000
Past service cost	1,346,000	-
Actuarial (gains) losses	(890,000)	(178,000)
Curtailment & settlement	(246,000)	(246,000)
	<hr/> <b>934,000</b>	<hr/> <b>299,000</b>

## Key assumptions used

#### Assumptions used at the reporting date:

	2020	2019
Discount rate used	Yield curve Difference between nominal and yield curves	Yield curve Difference between nominal and yield curves
Consumer Price Inflation (CPI)	CPI + 1%	CPI + 1%
Medical Aid Contribution Inflation		
Net Effective Discount Rate	Yield curve	Yield curve

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

We used the nominal and real zero curves as at 22 June 2020 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations.

Amounts for the current and previous four years are as follows:

	2020	2019	2018	2017	2016
	R	R	R	R	R
Defined benefit obligation	13,882,000	12,948,000	10,790,000	10,057,000	9,029,000

## Sensitivity analysis

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

20% increase/decrease in the assumed level of withdrawal rates;

1% increase/decrease in the Normal Salary cost inflation

The effect of higher and lower mortality rates is illustrated by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	<b>-20% Mortality rate</b>	<b>Valuation Assumption</b>	<b>+20% Mortality rate</b>
	<b>R</b>	<b>R</b>	<b>R</b>
Total Accrued Liability	14,750,000	13,882,000	13,125,000
Current Service Cost	1,893,000	1,780,000	1,681,000
Interest Cost	786,000	737,000	694,000

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### ***Employee benefit obligation continued...***

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed health care cost trends rates would have the following effects:

	-1% Medical aid inflation R	Valuation Assumption R	+1% Medical aid inflation R
Effect on the accrued liability	13,426,000	13,882,000	14,223,000
Effect on interest cost	1,720,000	1,780,000	1,825,000
Effect on service cost	701,000	737,000	762,000

### **Defined benefit plan**

Councillors and employees belong to two defined retirement funds which are the Free State Municipal Pension Fund and the Councillors Pension Fund governed by the Pension Fund Act of 1956. These funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed in June 2008. The Free State Municipal Pension Funds net assets that were available at 30 June 2008 was R 1 929 769 000.

The actuarial valuation determined that the funds was in sound financial position. The estimated liability of the funds is R1 576 689 000 which is adequately financed.

No new information was available at reporting date.

### **Long service awards**

An actuarial valuation of the municipality's liability in respect of benefits to eligible employees of the municipality was performed by ZAQ Consultants and Actuaries as at 30 June 2020. The provision is utilised when eligible employees of the municipality receive the value of the vested benefit. The actuarial valuation was performed in line with the requirements of GRAP 25.

	Female	Male	Total
Number of active employees	60	70	130
	Female	Male	Total
Salary weighted average years	44.66	43.59	44.13
	Female	Male	Total
Weighted average past service years	12.36	10.8	11.58

### **Amounts recognised in the statement of financial position are as follows:**

Opening balance	(12,789,000)	(12,433,000)
Net (increase)/decrease	(360,000)	(356,000)
	<b>(13,149,000)</b>	<b>(12,789,000)</b>

### **Amounts recognised in the statement of financial performance are as follows:**

Current service cost	1,448,000	1,429,000
Interest cost	1,358,000	2,388,000
Actuarial gains/(losses)	(1,743,000)	-
Benefit payments	(703,000)	(1,602,000)
	<b>360,000</b>	<b>2,215,000</b>

### **Key assumptions used**

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### ***Employee benefit obligation continued...***

Key assumptions used at the reporting date:

Discount rate used	Yield curve	Yield curve
Consumer Price Inflation (CPI)	Difference between nominal and yield curves	Difference between nominal and yield curves
Normal Salary Increase Rate	CPI + 1%	CPI + 1%
Net Effective Discount Rate	Yield curve	Yield curve

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

\*The discount rate that reflects the time value of money is best approximately by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefits payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

We use the nominal and zero curves as at 22 June 2020 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

Amounts for the current and previous four years are as follows:

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	13,149,000	12,948,000	10,790,000	10,057,000	9,029,000

### **Sensitivity analysis**

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

20% increase/decrease in the assumed level of withdrawal rates;

1% increase/decrease in the Normal Salary cost inflation

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%.

The effect is as follows:

	-20% Withdrawal rate R	Valuation Assumption R	+20% Withdrawal rate R
Total Accrued Liability	13,802,000	13,149,000	12,548,000
Current Service Cost	1,412,000	1,335,000	1,264,000
Interest Cost	1,829,000	1,742,000	1,661,000

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	-1% Normal salary inflation R	Valuation Assumption R	+1% Normal salary inflation R
Total Accrued Liability	12,413,000	13,149,000	13,954,000
Current Service Cost	1,257,000	1,335,000	1,421,000
Interest Cost	1,643,000	1,742,000	1,849,000

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***Employee benefit obligation continued...***

**The amounts recognised in the statement of financial position are determined as follows:**

Provision for long-service awards	13,149,000	12,789,000
Post retirement medical aid plan	13,882,000	12,948,000
	<b>27,031,000</b>	<b>25,737,000</b>

**16. Other Income**

Tender Documents Sales	13,417	34,605
EHS Air Emission Licenses	-	8,696
Entrance fees - HIV Awareness Concert	446,912	-
Skills Development Levy	164,759	160,500
Third Party Refunds	248,392	387,308
Insurance Claims	653,940	-
Recoveries from staff	100	131,002
Management Fees - Grants	115,850	110,050
	<b>1,643,370</b>	<b>832,161</b>

**17. Interest Received**

Bank accounts	7,726,832	8,264,278
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**18. Grants and subsidies**

**Capital Grants**

Municipal Infrastructure Grant	-	5,066,972
Integrated National Electrification Programme	-	65,385
	<b>-</b>	<b>5,132,357</b>

**Operating Grants**

Equitable share	153,040,000	147,523,000
Energy Efficiency and Demand Management Grant	4,532,771	-
Rural Roads Asset Management Systems Grant	2,284,717	2,077,950
Financial Management Grant	1,000,000	830,320
Disaster Relief Grant	149,000	-
	<b>161,006,488</b>	<b>150,431,270</b>
	<b>161,006,488</b>	<b>155,563,627</b>

**19. Donations received**

FS Department of Sports, Arts & Culture	-	45,175,949
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**20. Employee related costs**

Basic Salaries	60,312,985	54,984,894
Bonuses	5,145,499	4,740,511
Medical aid contributions	6,895,307	5,835,702
Unemployment Insurance Fund	295,438	290,847
Leave payouts	4,206,758	4,677,561
Overtime payments	754,682	1,423,308
Long-service awards	745,000	(173,000)
Car allowance	12,477,879	11,820,734
Housing benefits and allowances	543,996	519,019
Pension fund contribution	10,192,940	9,865,000
Shift Allowance	1,043,672	979,964
Skills Development Levy	680,630	767,610
Group life insurance	80,638	69,892
	<b>103,375,424</b>	<b>95,802,042</b>

**Disclosure of remuneration of Senior Managers:**

**Remuneration of Municipal Manager: Ms. ML Molibeli**

Basic Salary	913,089	898,251
Car Allowance	337,212	319,289
Contribution to UIF	1,785	1,785
Contribution to Medical Aid	42,516	38,963
Contribution to Pension Fund	149,285	146,321
	<b>1,443,887</b>	<b>1,404,609</b>

**Remuneration of Acting Chief Financial Officer: Mr. J Reyneke (Acting from 1 May 2018 up to 31 January 2020)**

Basic Salary	427,749	627,393
Acting allowance	74,519	-
Car / Travel Allowance	206,054	282,327
Contribution to UIF	1,041	1,636
Contribution to Medical Aid	31,446	46,676
Contribution to Pension Fund	77,294	114,727
Other benefits	6,420	
	<b>824,523</b>	<b>1,072,758</b>

Mr. J Reyneke was the Acting Chief Financial Officer as at 31 December 2019. For the period 01 May 2018 to 30 June 2019 he was not remunerated for his acting capacity as the Chief Financial Officer .

**Remuneration of Acting Chief Financial Officer: Mrs. M Moeketsi (Acting from 1 February 2020 up to 30 June 2020)**

Basic Salary	305,535	-
Acting allowance	38,192	-
Car / Travel Allowance	142,587	-
Contribution to UIF	744	-
Contribution to Pension Fund	55,210	-
Other benefits	4,585	-
	<b>546,853</b>	<b>-</b>

**FEZILE DABI DISTRICT MUNICIPALITY**

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*Employee related costs continued...*

**Remuneration of Director - Environmental Health and Emergency Services: Mrs N Baleni**

Basic Salary	712,444	130,908
Car Allowance	330,477	55,080
Contribution to UIF	1,785	297
Contribution to Medical Aid	34,657	5,128
	<b>1,079,363</b>	<b>191,413</b>

**Remuneration of Director - Local Economic Development and Tourism: Ms. V Moloi (Resigned effective from 31 July 2019)**

Basic Salary	60,139	750,528
Car Allowance	21,000	252,627
Contribution to UIF	223	1,785
Contribution to Medical Aid	4,216	47,307
Contribution to Pension Fund	10,203	119,534
	<b>95,781</b>	<b>1,171,781</b>

**Remuneration of Director - Corporate Services: Adv. A Mini (1 July 2018 to 14 January 2019)**

Basic Salary	-	457,092
Car Allowance	-	123,475
Contribution to UIF	-	1,041
Contribution to Medical Aid	-	23,654
	<b>-</b>	<b>605,261</b>

**Remuneration of Director - Corporate Services: Dr. S Motingoe**

Basic Salary	700,919	112,790
Car Allowance	356,235	55,079
Contribution to UIF	1,785	297
Contribution to Medical Aid	34,031	4,267
Contribution to Pension Fund	-	18,979
	<b>1,092,970</b>	<b>191,412</b>

The remuneration of senior managers and staff is within the upper limits of determinations by the Minister of Cooperative Governance & Traditional Affairs and SALGA Bargaining Council determinations respectively.

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### 21. Remuneration of Councillors

Executive Mayor	934,650	924,014
Sitting Allowance for Seconded Councillors of Local Municipalities	223,956	242,628
Mayoral Committee Members	3,275,996	3,531,934
Speaker	432,208	415,595
Ordinary Councillors	2,886,058	2,516,656
	<b><u>7,752,868</u></b>	<b><u>7,630,827</u></b>

#### In-kind benefits

The Executive Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

#### Executive Mayor

##### Cllr. AM Oliphant (1 July 2018 to 16 October 2018)

Basic Salary	-	157,681
Car Allowance	-	56,666
Cellphone Allowance	-	10,200
Social Contributions	-	20,532
	<b><u>-</u></b>	<b><u>245,079</u></b>

##### Cllr. M Moshodi (17 October 2018 to date)

Basic Salary	609,899	439,481
Car Allowance	196,764	145,462
Cellphone Allowance	40,800	30,600
Social Contributions	87,187	63,393
	<b><u>934,650</u></b>	<b><u>678,935</u></b>

#### Speaker

##### Cllr. L Kubheka

Basic Salary	344,039	327,426
Car Allowance	88,169	88,169
	<b><u>432,208</u></b>	<b><u>415,595</u></b>

#### MAYCO Members

##### Cllr. SV Khiba - MMC: Technical Services (1 July 2018 to 18 June 2019)

Basic Salary	-	417,177
Car Allowance	-	142,554
Cellphone Allowance	-	39,412
Social Contributions	-	62,944
	<b><u>-</u></b>	<b><u>662,087</u></b>

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*Remuneration of Councillors continued...*

**Cllr. MM Modikoe - MMC Corporate Services**

Basic Salary	583,805	434,086
Car Allowance	21,487	147,574
Cellphone Allowance	40,800	40,800
Social Contributions	65,096	62,944
	<b>711,187</b>	<b>685,404</b>

**Cllr. M Moshodi - MMC: Social Development (1 July 2018 - 16 October 2018)**

Basic Salary	-	95,904
Car Allowance	-	36,893
Cellphone Allowance	-	10,200
Social Contributions	-	15,399
	<b>-</b>	<b>158,396</b>

**Cllr. J Mareka - MMC: Local Economic Development and Tourism**

Basic Salary	375,097	284,348
Car Allowance	12,420	88,265
	<b>387,517</b>	<b>372,613</b>

**Cllr. M Mosia - MMC: Finance**

Basic Salary	514,411	357,732
Car Allowance	155,976	112,001
Cellphone Allowance	40,800	30,600
	<b>711,187</b>	<b>500,333</b>

**Cllr. V De Beer - MMC: Environmental Health, Emergency and Public Safety**

Basic Salary	298,665	284,348
Car Allowance	88,852	88,265
	<b>387,517</b>	<b>372,613</b>

**Cllr. IM Magashule - MMC: Social Development (15 March 2019 to current)**

Basic Salary	298,665	86,992
Car Allowance	88,852	27,003
	<b>387,517</b>	<b>113,995</b>

**Cllr. G Nketu - MPAC Chairperson**

Basic Salary	566,451	421,351
Car Allowance	20,482	143,245
Cellphone Allowance	40,800	40,800
Social Contributions	63,338	61,097
	<b>691,071</b>	<b>666,493</b>

**FEZILE DABI DISTRICT MUNICIPALITY**

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**Cllrs: MJ Msimanga (Resigned June 2019), ML Pietersen, A Oliphant, J Mareka, N Mokodutlo (resigned in November 2019), TL Soetsang, J Hlongwane, ME Mtunze, P Modiroe, S Motsapi, KI Khunyeli, M Ramailane, S Setungwane, K Thulo, F Scholtz, M Mtunze (from November 2019), AR Majoe**

Basic Salary	1,971,387	1,688,007
Car Allowance	521,535	466,084
Cellphone Allowance	363,800	341,082
Social Contributions	29,336	21,483
	<b>2,886,058</b>	<b>2,516,656</b>

**Seconded Councillors**

**Cllrs: S Tladi, LP Sotshiva, MJ Khunyeli, R Motebele, TA Motaung, SH Pittaway, C Serfontain, P Mohapi, MS Poho, K Mare, B Nnune, ML Pietersen, C Tete**

Basic Allowance	223,956	242,628
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**22. Repairs and maintenance**

Buildings	214,758	441,731
Furniture & office equipment	385,037	206,784
Motor vehicles	542,211	1,282,098
	<b>1,142,006</b>	<b>1,930,613</b>

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<b>General expenses</b>		
Accommodation	987,245	1,418,164
Advertising, publications and marketing	2,844,070	1,767,200
Air travel	207,765	227,681
Audit fees	3,836,337	3,670,300
Bank charges	84,626	95,285
Bursaries - employees	210,454	268,336
Bursaries - non-employees	909,912	1,097,290
Car hire	61,173	173,838
Catering services	1,913,298	3,119,948
Cellphone costs	1,237,486	1,226,663
Cleaning services	3,689,328	485,002
Conferences and workshops	243,138	154,865
Consumables	2,262,637	587,471
Donations - local community	148,691	203,809
Employee wellness	113,793	50,253
Fuel	-	1,184,530
Insurance	556,886	519,271
IT expenses	441,725	372,642
Municipal services	539,182	1,344,237
Postage	5,378	4,845
Printing & Stationery	1,082,102	505,776
Public campaigns & awareness expenses	7,707,640	3,568,769
Remuneration of Sec.79 Committee Members	17,055	16,774
Rental - premises	172,853	260,412
Rural Dev: Early childhood development	-	349,070
Rural Dev: Skills development and training	634,005	298,972
Rural Dev: Sustainable economic opportunities	978,923	1,046,181
Samples and specimens	183,667	26,403
Security	61,802	1,598,037
Software licenses	1,591,612	1,198,551
Sports and recreation	511,874	120,273
Staff recruitment costs	136,071	317,968
Subscriptions and membership fees	1,094,756	1,040,912
Telephone costs	612,455	426,483
Toll-gate fees	-	31,059
Training	-	468,790
Transport	297,190	659,209
Travel and subsistence allowance	1,517,456	1,641,836
Uniform and protective clothing	578,886	390,284
Vehicle licenses and registrations	15,026	16,158
Vehicles tracking	58,812	54,885
Workmans compensation fund	379,881	379,326
	<b>37,925,190</b>	<b>32,387,758</b>

#### 24. Transfers and grants paid

Regional Roads Assessment	2,284,717	2,077,950
Social Relief	1,211,000	-
Infrastructure Development	-	1,468,973
Electrification of Households	-	3,922,158
Energy Efficiency	4,532,771	-
	<b>8,028,488</b>	<b>7,469,081</b>

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**Restated**

**25. Depreciation and amortisation**

**Depreciation: Property, Plant & equipment**

Buildings	1,496,297	1,286,207
Motor vehicles	1,043,099	978,955
Computer equipment	431,721	641,167
Furniture and office equipment	445,200	1,748,615
Machinery and equipment	259,774	373,607
Community assets	138,888	166,474
Leased assets	776,620	-
	<b>4,591,599</b>	<b>5,195,025</b>

**Amortisation: Intangible assets**

Software applications	294,440	291,560
	<b>4,886,039</b>	<b>5,486,585</b>

**26. Finance charges**

Finance lease	175,287	174,371
Retirement benefit obligation	1,358,000	2,388,000
	<b>1,533,287</b>	<b>2,562,371</b>

**27. Loss on disposal of assets**

Furniture & office equipment	139,197	-
Machinery & equipment	81	-
Computer equipment	28,739	-
	<b>168,017</b>	<b>-</b>

**28. Contracted services**

Consultants	4,992,497	2,561,921
Legal services	3,356,424	2,021,310
	<b>8,348,921</b>	<b>4,583,231</b>

**29. Cash flows from operating activities**

<b>Deficit / (surplus) for the year</b>	<b>(150,550)</b>	<b>52,161,507</b>
<b>Adjustments for:</b>		
Grant receipts	1,500,512	(4,852,627)
Other income	4,208,205	69,661
Donations received	-	(45,175,949)
Actuarial gains	(2,633,000)	(178,000)
Depreciation	4,886,039	5,486,585
Loss on disposal of assets	168,017	
Finance charges	1,533,287	2,562,371
Interest received	(7,726,832)	8,264,278
Prior year VAT refunds received in current period	-	1,403,647
Other non cash movements	3,118,216	6,917
Movement in provisions	1,066,128	56,479

**Change in operating assets and liabilities:**

Adjustments for increase / (decrease) in trade and other payables from exchange transactions	8,570,548	(2,630,644)
Adjustments for (increase) / decrease in trade and other receivables from exchange transactions	241,961	14,700
Adjustments for (increase) / decrease in receivables from non-exchange transactions	(582,717)	(3,857,132)
Adjustments for increase / (decrease) in unspent conditional grants receipts	1,500,512	(6,281,865)
Adjustments for increase / (decrease) in finance lease obligations	893,170	-
<b>Net cash flows from / (used in) operations</b>	<b>15,999,585</b>	<b>5,401,454</b>

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### 30. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Critical accounting estimates and assumptions

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Covid 19 impact

For the purposes of the current reporting period, ended 30 June 2020, management has assessed the COVID-19 global pandemic and related impacts on the municipality's operations. The municipality has assessed the impact of the COVID-19 pandemic on the assumptions and significant judgements made in the valuation of items of property plant and equipment. Following the assessment of a number of factors, including the timing of the declaration of COVID-19 as a global pandemic by the World Health Organisation on 11 March 2020, as well as the announcement of COVID-19 related lockdown by the National Government, management has determined that the anticipated impact of COVID will not have a lasting impact on the municipality's operations and its ability to continue to provide services.

### 31. Financial instruments disclosure

Categories of financial instruments at amortised cost

#### Financial assets

Trade and other receivables from exchange transactions	706,094	464,133
Receivables from non-exchange transactions	7,611,121	6,099,912
Cash and cash equivalents	107,315,276	92,978,345
	<b>115,632,491</b>	<b>99,542,390</b>

#### Financial liabilities

Trade and other payables from exchange transactions	22,089,100	12,569,499
Employees benefit obligation	27,031,000	25,737,000
Unspent conditional grants	6,748,185	5,247,673
Finance lease obligation	1,624,857	-
	<b>57,493,142</b>	<b>43,554,172</b>

### 32. Commitments

#### Authorised capital expenditure

Upgrade of Ntswanatsatsi / Cornelia sports grounds	2,063,159	2,063,159
Namahadi: Water Reticulation 1714 Erf Connections (MIS:181245)	138,820	138,820
Qalabotjha/Villiers: New 6.5ML Water Reservoir and Pipeline, Phase 1	757,595	757,595
Namahadi/Kgatholoha: Upgrading of Sports Ground (MIS:211474)	64,026	64,026
Beatification and greening of the two main entrances into Parys	-	390,425
	<b>3,023,599</b>	<b>3,414,024</b>

#### Authorised operational expenditure

Implementation of energy efficiency & demand management side programme	3,487,314	-
Implementation of the RRAMS	33,283	2,318,000
Preparation and review of AFS of the 2017-18 and 2018-19 financial years	-	141,193
Specialised, technical and functional services for 2018/19, 2019/20 and 2020/21	5,627,148	8,856,723
Multi-functioning printing devices (Photocopy Machines)	1,678,297	3,051,487
	<b>10,826,042</b>	<b>14,367,402</b>
	<b>13,849,641</b>	<b>17,781,426</b>

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Certain comparative figures have been restated as indicated in note 39

Restatement of certain accounts were made in order to correct prior period errors and where appropriate to also align reporting of transactions according to their nature rather than function.

**34. Risk management Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk (fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

**35. Going concern**

We draw attention to the fact that at 30 June 2020, the municipality conducted going concern assessment for the purpose of preparation of these financial statements. It is management's view that all factors relating to going concern assessment as covered in the report are sufficient and relevant to enable management to make an informed judgement with regard to preparation of the 2019/20 annual financial statements on a going concern basis.

The annual financial statements have therefore been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

**36. Additional disclosure in terms of Municipal Finance Management Act****Contributions to organised local government**

Current year	1,112,517	1,060,573
Amount paid - current year	(1,112,517)	(1,060,573)
	-	-

**Audit fees**

Current year	3,836,337	3,670,300
Amount paid - current year	(3,836,337)	(3,670,300)
	-	-

**PAYE, SDL and UIF**

Current year	21,455,241	20,197,416
Amount paid - current year	(21,455,241)	(20,197,416)
	-	-

**Pension and Medical Aid Deductions**

Current year	25,479,573	24,756,932
Amount paid - current year	(25,479,573)	(24,756,932)
	-	-

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FDDM / Picasso Headlines (Pty) Ltd	80,000	80,000
FDDM / SAMWU obo P Setseli - Labour case	2,000,000	2,000,000
FDDM / L Magqwanti	1,000,000	1,000,000
FDDM / Nyumba Mobile Homes and Offices	533,129	533,129
FDDM / Khululekani Security	900,000	900,000
FDDM / Deregistration of the FDDM Trust	25,000	25,000
FDDM / Du Plooy and another and 2 others	2,800,000	2,800,000
FDDM / Maximum Profit Recovery	8,000,000	8,000,000
	<b>15,338,129</b>	<b>15,338,129</b>

Litigation is in the process against the municipality relating to various matters as detailed below with a potential liability of R 15,338,129 (2019: 15 338 129) as detailed above. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely and as such the litigation is proceeded with. Included in the contingencies, is an amount of R 25 000 for the disestablishment of the FDDM Trust which will be expenses once the transaction has been concluded.

**Details are as follows:**

- Picasso Headlines (Pty) Ltd: Outstanding payment relating to advertising costs.
- Labour related cases - P Setseli has been dismissed due to misconduct in refusing to take lawful orders. L Magqwanti has a labour case claim against the municipality.
- Nyumbe Mobile Homes and Offices (Pty) Ltd has instituted a claim for money owed for a project undertaken by a joint venture for the construction of additional wards and a new forensic mortuary at the Metsimaholo District Hospital.
- Khululekani Services has a civil claim against the municipality regarding a payment dispute for security services rendered.
- Included in the contingencies, is an amount of R25 000 for the disestablishment of the FDDM Trust which will be expenses once the transaction has been concluded.
- In the case of Du Plooy the plaintiff issued a summons regarding the breach of duty of care whereby AM Du Plooy lost his life as a result of injuries sustained.
- Maximum Profit Recovery: claims regarding award of a tender.

**38. Related parties****Relationships**

Executive Council Members	Refer to note 21
Members of key management	Refer to note 20

**Related party transactions**

The municipality did not enter into any transactions with related parties.

# FEZILE DABI DISTRICT MUNICIPALITY

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### 39. Prior-period errors

Management of Fezile Dabi District Municipality, whilst preparing the annual financial statements of the municipality for the period ended on 30 June 2020 noticed accounting errors in last financial year's statements. The errors have been corrected by restating each of the affected financial statements line items for prior period. The following table summarised the impact on the municipality's financial statements:

#### Statement of Financial Position:

Details	As previously reported at 30 June 2019	Adjustments	As restated at 30 June 2020	Ref.
<b>Non-current assets</b>				
Property, plant & equipment	203,322,600	(1,884,439)	201,438,161	1
Intangible assets	3,145,048	(1,226,732)	1,918,316	2
	<b>206,467,648</b>	<b>(3,111,171)</b>	<b>203,356,477</b>	
<b>Current assets</b>				
Inventories	38,197	-	38,197	
Trade and other receivables from exchange transactions	464,133	-	464,133	
Receivables from non-exchange transactions	584,538	5,515,374	6,099,912	3
Cash and cash equivalents	92,138,455	839,890	92,978,345	4
VAT receivable	-	8,334,567	8,334,567	5
	<b>93,225,323</b>	<b>14,689,831</b>	<b>107,915,154</b>	
<b>Total assets</b>	<b>299,692,971</b>	<b>11,578,660</b>	<b>311,271,631</b>	
<b>Current liabilities</b>				
Trade and other payables from exchange transactions	15,979,422	(3,409,923)	12,569,499	6
Unspent conditional grants and receipts	5,518,709	(271,036)	5,247,673	7
	<b>21,498,131</b>	<b>(3,680,959)</b>	<b>17,817,172</b>	
<b>Total liabilities</b>	<b>47,235,131</b>	<b>(3,680,959)</b>	<b>43,554,172</b>	
<b>Net assets</b>	<b>252,457,840</b>	<b>15,259,619</b>	<b>267,717,459</b>	

#### Statement of Net Assets

<b>Reserves</b>	247,885,194	15,259,618	263,144,812
Accumulated Surplus	4,572,646	-	4,572,646
Revaluation reserve			
	<b>252,457,840</b>	<b>15,259,618</b>	<b>267,717,458</b>
<b>Total net assets</b>			

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*Prior-period errors continued...*

### Statement of Financial Performance

#### Revenue

Other income	981,588	(149,427)	832,161	8
Interest received	7,902,345	361,933	8,264,278	9
Actuarial gains	178,000	-	178,000	
Grants and subsidies	155,781,782	(218,155)	155,563,627	10
Donations received	44,645,948	530,001	45,175,949	11
	<b>209,489,663</b>	<b>524,352</b>	<b>210,014,015</b>	

#### Expenditure

Employee related cost	97,046,926	(1,244,884)	95,802,042	12
Remuneration of councillors	7,630,827	0	7,630,827	
Repairs & maintenance	1,814,804	115,809	1,930,613	13
Other expenses	34,660,879	(2,273,121)	32,387,758	14
Grants & subsidies paid	2,188,000	5,281,081	7,469,081	15
Depreciation and amortisation	5,665,248	(178,663)	5,486,585	16
Finance costs	2,960,083	(397,712)	2,562,371	17
Bursaries	1,365,626	(1,365,626)	-	18
Insurance	446,883	(446,883)	-	19
Rentals	434,248	(434,248)	-	20
Contracted services	-	4,583,231	4,583,231	21
Donations	24,671,804	(24,671,804)	-	22
	<b>178,885,328</b>	<b>(21,032,820)</b>	<b>157,852,508</b>	
Casting error on total revenue less total expenditure	5,053,545	(5,053,545)	-	23
<b>Surplus for the year</b>	<b>35,657,880</b>	<b>16,503,627</b>	<b>52,161,507</b>	

### Statement of cash flows

#### Cash flow from operating activities

##### Cash Receipts

Cash receipts	164,534,724	(164,534,724)	-
Cash receipts from government grants	-	150,711,000	150,711,000
Other cash receipts	-	901,822	901,822

##### Cash paid to suppliers and employees

Cash paid to suppliers and employees	(148,752,085)	148,752,085	-
Payments to suppliers for goods and services	-	(54,883,221)	(54,883,221)
Payments to and on behalf of employees	-	(102,101,772)	(102,101,772)
Other payments	-	(379,326)	(379,326)

##### Net cash flows from / (used) in operations

Finance charges	(2,960,083)	2,786,616	(173,467)
Interest received	-	8,104,546	8,104,546
VAT refunds received	-	4,672,572	4,672,572
VAT liability paid	-	(1,450,699)	(1,450,699)
<b>Net cash flows from operating activities</b>	<b>12,822,556</b>	<b>(7,421,102)</b>	<b>5,401,454</b>

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Figures in R	30 June 2020	30 June 2019 Restated
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**Prior-period errors continued...**

**Cash flow used in investing activities**

Purchase of property, plant and equipment	(1,817,768)	20,386	(1,797,382)	
Purchase of intangible assets	(68,300)	40,980	(27,320)	
<b>Net cash flow used in investing activities</b>	<b>-</b>	<b>(1,886,068)</b>	<b>61,366</b>	25

**Cash flow used in financing activities**

Movement in changes in net current assets	(8,548,357)	8,548,357	-	
<b>Net cash flow used in financing activities</b>	<b>(8,548,357)</b>	<b>8,548,357</b>	<b>-</b>	26

**Net increase / (decrease) in cash and cash equivalents**

	4,274,199	1,188,621	5,462,820	
Cash and cash equivalents at the beginning of the year	89,750,324	(348,730)	89,401,594	27
<b>Cash and cash equivalents at the end of the year</b>	<b>94,024,523</b>	<b>839,891</b>	<b>94,864,414</b>	

**Error 1:**

During the preparation of account in the prior period, reconciliation errors occurred affecting property, plant and equipment. Comparative figures have been restated.

**Statement of Financial Position**

Increase in property, plant and equipment	-	762,461		
Increase in accumulated depreciation		(2,646,900)		
Decrease in accumulated surplus		1,884,439		
		-		

**Error 2**

Intangible assets were erroneously disclosed at cost instead of carrying amount.

**Statement of Financial Position**

Decrease in intangible assets	-	(1,226,732)		
Increase in accumulated surplus		1,226,732		
		-		

**Error 3**

A calculation error occurred which affected the total amount of receivables from non-exchanges transactions. Comparative figures have been restated as follows following a detailed analysis and calculations.

**Statement of Financial Position**

Increase in receivable from non-exchange transactions	-	5,515,374		
Increase in accumulated surplus		(5,515,374)		
		-		

**Error 4**

A calculation error occurred which affected the total amount of cash and cash equivalents. Comparative figures have been restated as follows following a detailed analysis and calculations.

**Statement of Financial Position**

Increase in cash and cash equivalents	-	839,890		
Increase in accumulated surplus		(839,890)		
		-		

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**Figures in R**

**30 June 2020**

**30 June 2019**

**Restated**

**Prior-period errors continued...**

**Error 5**

A calculation and disclosure error occurred which affected the accurate disclosure of the VAT receivable amount. Comparative figures have been restated as follows.

**Statement of Financial Position**

Increase in VAT receivable	-	8,334,567
Increase in accumulated surplus	(8,334,567)	
		-

**Error 6**

A calculation error occurred which affected the total amount of trade and other payables from exchanges transactions. Comparative figures have been restated as follows following a detailed analysis and calculations.

**Statement of Financial Position**

Decrease in trade and other payables from exchange transactions	-	(3,409,923)
Increase in accumulated surplus	3,409,923	
		-

**Error 7**

A calculation error occurred which resulted in overstatement of unspent conditional grants and receipts. Comparative figures have been restated as follows.

**Statement of Financial Position**

Decrease in unspent conditional grants and receipts	-	(271,036)
Decrease in accumulated surplus	271,036	
		-

**Error 8**

A calculation error occurred in computing revenue amounts for refunds received, receipts from insurance claims, tender sales documents, management fees and emission license fees which resulted in overstatement of other income. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Decrease in other income	-	(149,427)
Decrease in accumulated surplus	149,427	
		-

**Error 9**

A calculation error occurred in computing interest income from investments which resulted in understatement of interest income in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Increase in interest received	-	361,933
Increase in accumulated surplus	(361,933)	
		-

**Error 10**

A calculation error occurred in accounting for grants and subsidies received which resulted in overstatement of grants received in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Decrease in grants and subsidies revenue	-	(218,155)
Decrease in accumulated surplus	218,155	
		-

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**Figures in R**

**30 June 2020**

**30 June 2019**

**Restated**

**Prior-period errors continued...**

**Error 11**

A calculation error occurred in accounting for donations received in a form of construction costs paid by the Free State Department of Sports, Arts and Culture towards the construction of Tumahole Stadium which resulted in understatement of donations received in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Increase in donations received	-	530,001
Increase in accumulated surplus	(530,001)	
		-

**Error 12**

A reconciliation error occurred in accounting for employee related costs which resulted in overstatement of donations received in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Decrease in employee related costs	-	1,244,884
Increase in accumulated surplus	(1,244,884)	
		-

**Error 13**

A reconciliation error occurred in accounting for repairs and maintenance costs which resulted in understatement of repairs and maintenance in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Increase in repairs and maintenance	-	(115,809)
Decrease in accumulated surplus	115,809	
		-

**Error 14**

A reconciliation and classification error occurred in accounting for other operating expenses which resulted in overstatement of other expenses in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Decrease in other expenses	-	1,258,659
Increase in accumulated surplus	(1,258,659)	
		-

**Error 15**

A reconciliation and classification error occurred in accounting for transfers and grants paid which resulted in understatement of transfers and grants paid in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Increase in transfers and grants paid	-	(5,281,081)
Decrease in accumulated surplus	5,281,081	
		-

**Error 16**

A reconciliation error occurred in accounting for annual depreciation on fixed assets which resulted in overstatement of depreciation in the financial statements. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Decrease in depreciation	-	178,663
Increase in accumulated surplus	(178,663)	
		-

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in R	30 June 2020	30 June 2019 Restated
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### **Prior-period errors continued...**

#### **Error 17**

A reconciliation error occurred in accounting for finance charges on leased assets which resulted in overstatement of finance charges in the financial statements. Comparative figures have been restated as follows.

#### **Statement of Financial Performance**

Decrease in finance charges	-	397,712
Increase in accumulated surplus	(397,712)	
		-

#### **Error 18**

A classification error occurred in accounting for contracted services wherein it was disclosed under general expenses as business and advisory services. Comparative figures have been restated as follows.

#### **Statement of Financial Performance**

Increase in contracted	-	(1,365,626)
Increase in other / general expenses	1,365,626	
		-

#### **Error 19**

A classification and reconciliation error occurred in accounting for insurance. Comparative figures have been restated as follows.

#### **Statement of Financial Performance**

Decrease in insurance	-	(446,883)
Increase in accumulated surplus	(72,388)	
Increase in other / general expenses	519,271	
		-

#### **Error 20**

A classification error occurred in accounting for rentals expenses were disclosed separately on the face of the financial statements instead of being reported under other / general expenses. Comparative figures have been restated as follows.

#### **Statement of Financial Performance**

Decrease in rentals	-	(434,248)
Decrease in accumulated surplus	173,836	
Increase in other / general expenses	260,412	
		-

#### **Error 21**

A classification error occurred in accounting for bursaries where bursaries were disclosed separately on the face of the financial statements instead of being reported under other / general expenses. Comparative figures have been restated as follows.

#### **Statement of Financial Performance**

Decrease in bursaries	-	4,583,231
Increase in other / general expenses	(4,583,231)	
		-

#### **Error 22**

A classification error occurred in MIG & INEP Grants expenditure on behalf of Mafube LM disclosed as donations to Mafube in 207/18. Comparative figures have been restated as follows.

#### **Statement of Financial Performance**

Decrease in donations	-	(24,671,804)
Decrease in accumulated surplus	24,671,804	
		-

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****Figures in R****30 June 2020****30 June 2019****Restated****Prior-period errors continued...****Error 23**

A casting error occurred in computation of surplus for the year. Comparative figures have been restated as follows.

**Statement of Financial Performance**

Decrease surplus for the year	-	(5,053,545)
Decrease in accumulated surplus	5,053,545	
		-

**Error 24**

A reconciliation error occurred in accounting for net cash flows from operating activities which resulted in overstatement of cash flows from operating activities in the financial statements. Comparative figures have been restated as follows.

**Statement of Cash Flows**

Decrease net cash flows from operating activities	-	7,421,102
Decrease in accumulated surplus	(7,421,102)	
		-

**Error 25**

A reconciliation error occurred in accounting for net cash flows from investing activities which resulted in overstatement of cash flows from investing activities in the financial statements. Comparative figures have been restated as follows.

**Statement of Cash Flows**

Decrease net cash flows from investing activities	-	(61,366)
Decrease in accumulated surplus	61,366	
		-

**Error 26**

A reconciliation error occurred in accounting for net cash flows from financing activities which resulted in overstatement of cash flows from financing activities in the financial statements. Comparative figures have been restated as follows.

**Statement of Cash Flows**

Decrease net cash flows from financing activities	-	(8,548,357)
Increase in accumulated surplus	8,548,357	
		-

**Error 27**

A reconciliation error occurred in accounting for net cash and cash equivalents at the beginning of the year which resulted in overstatement of cash and cash equivalents at the beginning of the year in the financial statements. Comparative figures have been restated as follows.

**Statement of Cash Flows**

Decrease net cash and cash equivalents at the beginning of the year	-	(348,730)
Decrease in accumulated surplus	348,730	
		-

**Reclassification(s)****Reclassification 1**

In accounting for revenue recognition against conditional grants in 2018/19, an error occurred where income recognised in the Statement of Financial Position in respect of MIG funds was recorded as R 5 066 972.36 instead of R 1 399 778.05. The difference of R 3 667 194.31 was supposed to be revenue recognised in respect of INEP project in which case only R 65 385.42 was recognised. The error does not have effect on the total revenue recognised. The effect of reclassification is as follows:

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in R	30 June 2020	30 June 2019 Restated
<b>Prior-period errors continued...</b>		
<b>Statement of Financial Performance</b>		
Increase in INEP - Revenue recognised	-	3,667,194
Decrease in MIG - Revenue recognised	-	(3,667,194)
	—	—
	—	—
<b>Reclassification 2</b>		
Insurance expense on cellphone contracts was erroneously accounted for as part of cellphone expenses instead. Comparative figures have been reclassified as follows:		
<b>Statement of Financial Performance</b>		
Increase in insurance	-	142,280
Decrease in cellphone costs	-	(142,280)
	—	—
	—	—

### 40. Unauthorised expenditure

Opening balance as previously reported	12,253,634	315,165
<b>Opening balance as restated</b>	<b>12,253,634</b>	<b>315,165</b>
Add: Unauthorised Expenditure - prior year identified in the current year	-	-
Add: Unauthorised Expenditure - current year	869,779	11,938,469
Less: Amount written off - current	-	-
<b>Closing balance</b>	<b>13,123,413</b>	<b>12,253,634</b>

**The over expenditure incurred by municipal departments during the year is attributable to the following categories:**

Non-cash	698,555	10,234,553
Cash	171,224	1,703,916
	<b>869,779</b>	<b>11,938,469</b>

### Unauthorised expenditure: Budget overs pending – per municipal department

Council General	-	2,363,556
Municipal Manager's office	891	-
MAYCO	-	24,638
Information Technology	697,664	1,995
Emergency services	61,272	235,773
Finance	109,952	8,215,217
Other		1,097,290
	<b>869,779</b>	<b>11,938,469</b>

### Recoverability of unauthorised expenditure

Council resolved as per item 51 of the council meeting held on 28 June 2019 that the unauthorised expenditure of R315 165.08 be recovered.

Council resolved as per item 15 of the council meeting held on 30 August 2019 that the unauthorised expenditure related to the over-expenditure of the 2018/2019 financial year amounting to R10 841 179 be written off as irrecoverable.

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Annual Financial Statements for the year ended 30 June 2020

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in R

30 June 2020	30 June 2019 Restated
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### 41. Fruitless and wasteful expenditure

Opening balance as previously reported	158,928	25,590
<b>Opening balance as restated</b>	<b>158,928</b>	<b>25,590</b>
Add: Fruitless and Wasteful Expenditure - prior year identified in the current year	-	6,481
Add: Fruitless and Wasteful Expenditure - current year	14,650	133,607
Less: Amount written off - current	-	-
Less: Amount recovered	-	(6,750)
<b>Closing balance</b>	<b>173,579</b>	<b>158,928</b>

#### Amounts recoverable

Council resolved as per item 51 of the council meeting held on 28 June 2019 that the fruitless expenditure of R145 987.74 be recovered.

### 42. Irregular expenditure

Opening balance as previously reported	50,657,178	8,062,831
<b>Opening balance as restated</b>	<b>50,657,178</b>	<b>8,062,831</b>
Add: Irregular Expenditure - prior year identified in the current year	-	20,434,004
Add: Irregular Expenditure - current year	-	22,160,343
Less: Amount written off - current	-	-
Less: Amount recovered	-	-
<b>Closing balance</b>	<b>50,657,178</b>	<b>50,657,178</b>

#### Analysis of expenditure awaiting condonation per age classification

##### Cases under investigation

An amount of R2,257,124.07 spent on an HIV/AIDS concert in 2017/18 financial year is still to be investigated by MPAC as per Council resolution.

Unauthorised, irregular and fruitless and wasteful expenditure identified by management and the auditors was still under investigation by MPAC as at 30 October 2020.

### 43. Deviations from Supply Chain Management Policy

In terms of regulation 36 of Municipal Supply Chain Management Regulations, the Accounting Officer may dispense with the official procurement process established by the policy and procure any required goods or services through any convenient process, including ratification of minor technical breaches of procurement processes by an official or committee acting in terms of delegated powers or duties.

The information below provides details of categories of deviations approved by the Accounting Officer as provided for in terms of regulation 36.

Emergency	3,188,897	879,322
Urgent	3,006,403	378,985
Single provider		-
Other exceptional cases	3,502,349	2,589,662
	<b>9,697,649</b>	<b>3,847,969</b>

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****Figures in R****30 June 2020****30 June 2019****Restated****44. Analysis of material differences between budget and actual amounts**

- 1 Investment revenue - Actual higher than the budgeted amount due to higher than projected interest as a results of a portion of capital invested not redeemed as initially anticipated.
- 2 Other own revenue - The actual amount is materially less than the budgeted amount due to classification differences between the budget and the financial statements.
- 3 Actuarial gains - no provision for actuarial gains initially made in the budget.
- 4 Transfers and subsidies - The actual amount is materially higher than the budgeted amount due to classification differences between the budget and the financial statements.
- 5 Employee related costs - Year to date actual less than the budgeted amount, due to mainly the fact that vacant senior management positions were not filled earlier than anticipated.
- 6 Remuneration of councillors - Year to date actual is less than the budgeted amount due to less than intially planned travel claims by councillors.
- 7 Repairs and maintenance - Repairs and maintenance not initially budgeted for as a separate line item.
- 8 Other expenses - Budgeted amount higher than actual anout mainly due to increase in adjustment amount that was undertaken in anticipation of potential need to provide social relief due to COVID 19 outbreak.
- 9 Transfers and grants - actual expenditure materially higher than the budgeted amount due to implementation of Energy Efficiency & Demand Side Management Grant which was not initially budgeted for and the impact of its excellarated implementation not considered during adjustments in anticipation that COVID 19 would impact of its implementation.
- 11 Finance charges - No budget provision made for finance charges to cater for finance charges on finance leases and post retirement benefit obligation.
- 12 Materials & bulk purchases - Budgeted amount materially higher than actual amount due to the fact that transactions which could potentially relate to materials and bulk purchases are catered for under repairs and maintenance and other expenditure line item.
- 13 Business and advisory services - Actual materially higher than budgeted amount due to the fact that the related expenditure was budgeted for as part of other expenditure.
- 14 Transfers and subsidies - capital - Operational grant (i.e RRAMS) erroneously budgeted for as capital grant.
- 15 Property, plant and equipment - Error in under provision of existing PPE in the budgeted statement of financial position.
- 16 Intangible assets - Error in under provision of existing intangible assets in the budget statement of financial position.
- 17 Inventory - No budget provision made in the budget statement of financial position.
- 18 Trade and other receivables from exchange transactions - No budget provision made in the budget statement of financial position.
- 19 Receivables from non-exchange transactions - No budget provision made in the budget statement of financial position.
- 20 Cash and cash equivalents - No budget provision made in the budget statement of financial position.
- 21 VAT Receivable - No budget provision made in the budget statement of financial position.
- 22 Finance lease obligation (non-current) - No budget provision made in the budget statement of financial position.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****Figures in R****30 June 2020****30 June 2019****Restated*****Analysis of material differences between budget and actual amounts continued...***

23 Retirement benefit obligations - No budget provision made in the budget statement of financial position.

24 Trade and other payables from exchange transactions - No budget provision made in the budget statement of financial position.

25 Unspent conditional grants & receipts - No budget provision made in the budget statement of financial position.

26 Finance lease obligation (current) - No budget provision made in the budget statement of financial position.

27 Accumulated surplus / (deficit) - Insufficient budget provision made in the budget statement of financial position.

28 Revaluation reserve - No budget provision made in the budget statement of financial position.

29 Cash receipts from government grants - The actual amount is materially higher than the budgeted amount due to classification differences between the budget and the financial statements.

30 Other cash receipts - The actual amount is materially less than the budgeted amount due to classification differences between the budget and the financial statements.

31 Investment received - Budgeted amount higher than actual amount due to accrual portion of interest receivable (non-cash flow) budgeted for as part of actual interest anticipated to be received.

32 Payments to suppliers and employees - Budgeted amount higher than actual amount mainly due to increase in adjustment amount that was undertaken in anticipation of potential need to provide social relief due to COVID 19 outbreak and due to the fact that vacant senior management positions were not filled earlier than anticipated.

33 Finance charges - No budget provision initially made for finance charges on finance leases.

34 Other payments - Actual payments lower than initially anticipated due to a substantial portion of payments catered for under payments to supplier.

35 Purchase of property, plant and equipment -

36 Purchase of intangible assets - Not applicable

37 Net increase/(decrease) in cash and cash equivalents - insufficient budget provision made due to generally inadequate provision for anticipated in and out flow of cash.

38 Cash and cash equivalents at the beginning of the year - insufficient budget provision made due to generally inadequate provision for anticipated in and out flow of cash.

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****Figures in R****30 June 2020****30 June 2019****Restated****45. Revenue**

Revenue consists of the following:

Other Income	1,643,370	832,161
Interest Received	7,726,832	8,264,278
Actuarial Gains	2,633,000	(589,000)
Grants and subsidies	161,006,488	155,563,627
Donations received	-	45,175,949
	<b>173,009,690</b>	<b>209,247,015</b>

**The amounts included in revenue arising from exchanges of goods or services are as follows:**

Other Income	1,643,370	832,161
Interest Received	7,726,832	8,264,278
Actuarial Gains	2,633,000	(589,000)
	<b>12,003,202</b>	<b>8,507,439</b>

**The amounts included in revenue arising from non-exchange of goods or services are as follows:**

Grants and subsidies	161,006,488	155,563,627
Donations received	-	45,175,949
	<b>161,006,488</b>	<b>200,739,576</b>

**46. Subsequent events****Adjusting events**

During 2018/19 financial reporting, there was an objective evidence that as at 30 June 2019, the incident stated below existed, thus necessitating adjustment of the financial statements as indicated below:

A suspected fraud occurred affecting a payment to a service provider in the amount of R 613 284 (VAT incl.) that was made. The financial statements were subsequently adjusted by reversing the payment against payables account. The matter was reported to the SAPS and is still under investigation.

**Non-adjusting events**

Council resolved as per item 15 of the council meeting held on 30 August 2019 that the unauthorised expenditure related to the over-expenditure of the 2018/2019 financial year amounting to R10 841 179 be written off as irrecoverable.